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State of Idaho

Legislative Services Office

Individual Entity Audit Report

A communication to the Joint Finance-Appropriations Committee

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**IDAHO BOND BANK AUTHORITY**

**FY 2007**

**Report OP15507**  
**Date Issued: May 1, 2008**

*Serving Idaho's Citizen Legislature*



Don H. Berg, Manager

**Idaho Legislative Services Office  
Legislative Audits Division**

## **IDAHO BOND BANK AUTHORITY**

### **SUMMARY**

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#### **PURPOSE OF AUDIT REPORT**

We have audited the financial statements of the Idaho Bond Bank Authority for the fiscal year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine whether the Authority's financial statements are materially accurate and reliable, and that it complied with laws and regulations affecting fiscal operations.

#### **CONCLUSION**

We conclude that the Authority's financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on the Authority's financial statements.

#### **FINDINGS AND RECOMMENDATIONS**

There are two findings and recommendations in this report.

- 1) Material errors existed in the financial statements due to the lack of an accounting system and accounting expertise within the Authority.
- 2) Costs of salaries and fringe benefits provided by the State Treasurer's Office are not disclosed in the Authority's financial statements as required.

The complete findings are detailed on pages 7 and 8. A copy of the entire report is available at <http://www.legislature.idaho.gov/audit/index.htm>, or by calling 208-334-4832.

#### **AGENCY RESPONSE**

The State Treasurer's Office has reviewed the report and is in general agreement with its contents.

#### **OTHER INFORMATION**

We discussed other issues which, if changed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Idaho Bond Bank Authority and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the executive director, Liza Carberry, and her staff.

**ASSIGNED STAFF**

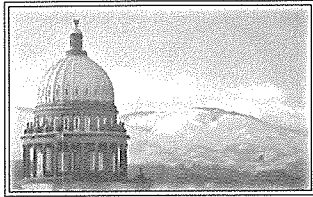
Patrick Aggers, CPA, Staff Auditor

April Renfro, CPA, Managing Auditor

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# Legislative Services Office Idaho State Legislature

*Serving Idaho's Citizen Legislature*

**Jeff Youtz**  
Director

April 3, 2008

Unqualified Opinion on  
Basic Financial Statements

## Independent Auditor's Report

Honorable Ron Crane, Idaho State Treasurer, Chair  
John Sandy, Past Chair  
Liza Carberry, Executive Director  
Idaho Bond Bank Authority  
304 North 8<sup>th</sup> Street, Room 208  
Boise, ID 83702

Authority Members and Executive Director:

We have audited the accompanying basic financial statements of the Idaho Bond Bank Authority, a component unit of the State of Idaho, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Authority as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2008, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That

**Mike Nugent, Manager**  
Research & Legislation

**Cathy Holland-Smith, Manager**  
Budget & Policy Analysis

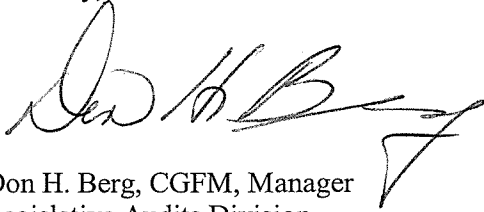
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**Don H. Berg, Manager**  
Legislative Audits

**Glenn Harris, Manager**  
Information Technology

report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered when assessing the results of our audit.

The Authority has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Sincerely,

A handwritten signature in dark ink, appearing to read "Don H. Berg", with a stylized flourish at the end.

Don H. Berg, CGFM, Manager  
Legislative Audits Division

STATE OF IDAHO  
IDAHO BOND BANK AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

ASSETS

Current Assets

Cash and Cash Equivalents	\$0
Investments	1,323
Loans and Notes Receivable	1,614,288
Deferred Costs	784,094
Interest Receivable	344,782
Total Current Assets	<u>\$2,744,487</u>

Noncurrent Assets

Loans and Notes Receivable	<u>\$35,415,775</u>
Total Noncurrent Assets	<u>\$35,415,775</u>

Total Assets	<u><u>\$38,160,262</u></u>
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LIABILITIES

Current Liabilities

Bonds and Notes Payable	\$1,608,472
Interest Payable	344,782
Total Current Liabilities	<u>\$1,953,254</u>

Noncurrent Liabilities

Bonds and Notes Payable	<u>\$36,205,685</u>
Total Noncurrent Liabilities	<u>\$36,205,685</u>

Total Liabilities	<u>\$38,158,939</u>
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NET ASSETS

Unrestricted	<u>\$1,323</u>
Total Net Assets	<u>\$1,323</u>
Total Liabilities and Net Assets	<u><u>\$38,160,262</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF IDAHO  
IDAHO BOND BANK AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

OPERATING REVENUES	
Interest on Loans Receivable	\$1,341,421
Investment Income	4,509
Grants and Contributions	20,000
Total Operating Revenues	<u>\$1,365,930</u>
OPERATING EXPENSES	
Interest Expense	\$1,346,841
Other Expense	23,527
Total Operating Expenses	<u>\$1,370,368</u>
Operating Income (Loss)	<u>(\$4,438)</u>
Change in Net Assets	(\$4,438)
Total Net Assets - Beginning of Year, as Restated	<u>5,761</u>
Total Net Assets - End of Year	<u><u>\$1,323</u></u>

The accompanying notes are an integral part of these financial statements.



STATE OF IDAHO  
IDAHO BOND BANK AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Bonds Issued	\$10,188,310
Receipts of Loan Principal	960,000
Receipts of Loan Interest	1,215,296
Receipts from Grants and Contributions	20,000
Receipts of Investment Interest	4,509
Receipts from Investments	4,438
Disbursements of Loans Receivable	(10,076,145)
Payments of Bond Principal	(960,000)
Payments of Bond Interest	(1,220,716)
Payments of Issue Costs	(112,165)
Other Payments	(23,527)
Net Cash Provided (Used) by Operating Activities	<u>\$0</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Net Cash Provided (Used) by Non-Capital Financing Activities	<u>\$0</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Net Cash Provided (Used) by Investing Activities	<u>\$0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$0
Beginning Cash, Cash Equivalents, and Cash with Treasurer	0
Ending Cash, Cash Equivalents, and Cash with Treasurer	<u><u>\$0</u></u>

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)

by Operating Activities:

Operating Income (Loss)	(\$4,438)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used)	
by Operating Activities:	
Amortization	(5,467)
Net Changes in Assets and Liabilities:	
Investments	4,438
Interest Receivable	(131,592)
Deferred Costs	(195,242)
Notes Receivable - deferred costs and premiums	200,709
Interest Payable	131,592
Net Cash Provided (Used) by Operating Activities	<u><u>\$0</u></u>

The accompanying notes are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR FISCAL YEAR 2007

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## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Idaho Bond Bank Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting principles. The financial statements are presented as of and for the year ended June 30, 2007.

### **A. Reporting Entity**

The Idaho Bond Bank Authority was created by Idaho Code, Section 67-8703, authorizing the Authority to issue bonds to make loans to local governments for infrastructure. The objective of the Authority is to obtain lower interest rate and underwriting costs than local governments can achieve individually. The Authority is administered by a five member board, of which two members are appointed by the governor and three are elected officials.

The Authority is included as a component unit in the State of Idaho financial statements. The Authority can obligate state sales tax revenue as a source of payment or security for bonds issued, which imposes a potential direct financial burden on the State.

### **B. Basis of Accounting and Financial Statement Presentation**

The Authority is accounted for and reported as a proprietary-type enterprise fund. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

The Authority has chosen not to apply all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued after November 30, 1989.

The Statement of Net Assets presents the Authority's assets and liabilities, with the difference reported as net assets. Net assets are displayed as unrestricted net assets; however, unrestricted net assets may have constraints or designations placed upon them by management, which can be unilaterally removed.

### **C. Assets and Liabilities**

#### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of bank accounts.

#### ***Loans and Notes Receivable***

Loans and Notes Receivable consist of loans to local governments in order to finance infrastructure needs.

### ***Bonds and Notes Payable***

Bonds and Notes payable include bonds issued to make loans to local governments in order to finance infrastructure needs. Bond premiums, as well as issuance costs, are deferred and amortized over the life of the loan. See Note 2 for further explanation. The Authority's financial statements report long-term obligations, such as bonds and notes payable, as liabilities, with the portion payable within twelve months designated separately from the portion payable in more than twelve months.

## **NOTE 2. LONG-TERM LIABILITIES**

The Authority is authorized to issue and sell revenue bonds under provisions of the Idaho Constitution, Article VIII, Section 2A, and Idaho Code, Sections 67-8701 through 67-8728. The bonds are used by the Authority to make loans to local governments in order to finance infrastructure needs. The bonds are limited obligations of the Authority and do not constitute a debt of the State of Idaho or any of its political subdivisions. Revenue Bonds Series 2004A were originally issued in the amount of \$11,070,000, Series 2006A bonds had an original issue amount of \$17,415,000, and the 2006B issue, consisting of series and term bonds, had an original issue amount of \$9,780,000.

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year		Series 2004A		Series 2006A		Series 2006B		Total	
Ending	June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2008	750,000	422,330	535,000	748,938	305,000	444,500	1,590,000	1,615,768
	2009	785,000	399,305	575,000	726,737	495,000	427,500	1,855,000	1,553,542
	2010	800,000	367,530	610,000	703,038	520,000	405,931	1,930,000	1,476,499
	2011	845,000	326,405	630,000	678,238	270,000	389,313	1,745,000	1,393,956
	2012	885,000	283,155	660,000	652,438	565,000	372,444	2,110,000	1,308,037
	2013-2017	3,795,000	756,775	3,285,000	2,809,888	3,230,000	1,444,269	10,310,000	5,010,932
	2018-2022	1,630,000	192,768	3,770,000	2,031,461	1,590,000	753,394	6,990,000	2,977,623
	2023-2027	135,000	2,902	4,520,000	1,129,318	725,000	554,844	5,380,000	1,687,064
	2028-2032			1,315,000	443,363	930,000	349,865	2,245,000	793,228
	2033-2037			1,290,000	119,475	1,150,000	122,719	2,440,000	242,194
Total		<b>\$9,625,000</b>	<b>\$2,751,170</b>	<b>\$17,190,000</b>	<b>\$10,042,894</b>	<b>\$9,780,000</b>	<b>\$5,264,779</b>	<b>\$36,595,000</b>	<b>\$18,058,843</b>
Interest Rate		2.50% to 5.00%		4.00% to 5.00%		4.00% to 5.00%		2.50% to 5.00%	

The revenue bonds are secured by loan payments from local governments, investment earnings on amounts held by the trustee, and any other moneys received by the Authority designated as revenues. The Series 2006A bonds are further secured by moneys in the debt service reserve funds held by each participant. The reserve requirement is equal to the lesser of 125 percent of the annual debt service, the maximum annual debt service, or 10 percent of the original issue amount.

The changes in long-term liabilities for the fiscal year ended June 30, 2007, are as follows:

<b>Long-Term Liabilities</b>	<b>Balances at July 1, 2006</b>	<b>Increases</b>	<b>Reductions</b>	<b>Balances at June 30, 2007</b>	<b>Amounts Due Within One Year</b>
Revenue Bonds - 2004A	\$10,360,000		(\$735,000)	\$9,625,000	\$750,000
Revenue Bonds - 2006A	17,415,000		(225,000)	17,190,000	535,000
Revenue Bonds - 2006B		\$9,780,000		9,780,000	305,000
Total Revenue Bonds	27,775,000	\$9,780,000	(\$960,000)	36,595,000	1,590,000
Premiums/Discounts	733,238	496,989	(11,070)	1,219,157	18,472
<b>Total Bonds Payable</b>	<b>\$28,508,238</b>	<b>\$10,276,989</b>	<b>(\$971,070)</b>	<b>\$37,814,157</b>	<b>\$1,608,472</b>

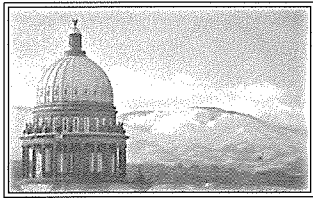
### NOTE 3. SUBSEQUENT EVENTS

On November 1, 2007, the Authority issued revenue bonds in the amount of \$11,140,000. Proceeds of the bonds will be used to make loans to local governments to finance public capital improvements.

### NOTE 4. FUND EQUITY

During fiscal year 2007, additional information became available that required the restatement of the beginning net assets.

The beginning net assets decreased by \$37,499 due to an overstatement of notes receivable in prior reports.



# Legislative Services Office Idaho State Legislature

*Serving Idaho's Citizen Legislature*

**Jeff Youtz**  
Director

April 3, 2008

Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial  
Statements Performed in Accordance  
With Government Auditing Standards

Honorable Ron Crane, Idaho State Treasurer, Chair  
John Sandy, Past Chair  
Liza Carberry, Executive Director  
Idaho Bond Bank Authority  
304 North 8<sup>th</sup> Street, Room 208  
Boise, ID 83702

Authority Members and Executive Director:

We have audited the financial statements of the Idaho Bond Bank Authority as of and for the year ended June 30, 2007, and have issued our report thereon dated April 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in

**Mike Nugent, Manager**  
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accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We have included two findings and recommendations in this report, and we consider Finding #1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider the significant deficiency described in Finding #1 to be a material weakness.

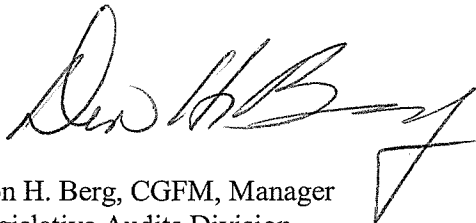
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to the management of the Authority in a separate letter.

This report is intended solely for the information and use of the State of Idaho and the Idaho Bond Bank Authority and is not intended to be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Don H. Berg", with a stylized flourish extending from the end of the signature.

Don H. Berg, CGFM, Manager  
Legislative Audits Division

# FINDINGS AND RECOMMENDATIONS

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## **FINDING #1**

Material errors existed in the financial statements due to the lack of an accounting system and accounting expertise within the Authority.

The accounting system used by the Authority consists of spreadsheets compiled at the end of the fiscal year using data from bank statements, bond documents, and loan agreements. This once-a-year compilation raises the potential for errors and omissions and does not meet the intent of the Master Trust Agreement, which is the legal agreement between the Authority and U.S. Bank as Trustee to provide "proper books of record" upon request. In addition, the Authority's procedures for preparing and reviewing financial statements have inherent internal control weaknesses due to the limited experience and expertise of staff involved.

We determined that revenues and expenditures were both overstated by \$402,840 on the *Statement of Revenues, Expenses, and, Changes in Fund Net Assets*, which was not detected by the Authority. Other misstatements of lesser amounts were also noted, along with prior period adjustments, which further indicate that internal control weaknesses exist in the procedures for preparing financial statements.

Although the financial statements were corrected as a result of the audit, this condition indicates a material weakness in controls that we are required to disclose in the report. As the activities and complexity of the Authority's accounting grows, additional expertise and a formal accounting system are needed to provide accurate financial information and comply with the Master Trust Agreement.

## **RECOMMENDATION #1**

We recommend that the Authority implement an accounting system, in accordance with generally accepted accounting principles, that meets the requirements of the Master Trust Agreement. We also recommend that the Authority seek additional accounting expertise to develop appropriate internal controls and to ensure that financial statements are properly prepared.

## **AGENCY'S CORRECTIVE ACTION PLAN**

The Bond Bank Authority does not have appropriations or staff to maintain an accounting system and relies upon the Trustee, US Bank, to prepare and submit the financial accounting, and the State Controller's Office to prepare and submit the financial statements. Until such time that the State Treasurer is able to hire accounting expertise, the Bond Bank will have to continue to rely on the Trustee and the State Controller's Office for its accounting services.

**FINDING #2**

Cost of salaries and fringe benefits provided by the State Treasurer's Office are not disclosed in the Authority's financial statements as required.

Generally accepted accounting principles require that entities disclose "on-behalf payments" in their financial statements, which are identified as the value of salaries and fringe benefits paid for by a third party.

In the case of the Bond Bank Authority, the State Treasurer's Office pays all of the salaries and benefits for various staff members to provide services to the Authority at no cost, including the salary and benefit costs of the executive director. However, these costs are not disclosed in the financial statements as required.

Although the amount is immaterial to the financial statements, a full disclosure is required to prevent potential misstatements and to comply with generally accepting accounting principles.

**RECOMMENDATION #2** – We recommend that the Authority comply with generally accepted accounting principles by disclosing in its financial statements the value of on-behalf payments made by the State Treasurer's Office.

**AGENCY'S CORRECTIVE ACTION PLAN**

The State Treasurer's Office is now tracking all personnel hours worked on behalf of the Idaho Bond Bank Authority and will be able to provide this information for the next financial statement.



# AGENCY RESPONSE

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RON G. CRANE  
STATE TREASURER



(208) 334-3200  
(208) 332-2960 FAX

**STATE OF IDAHO  
OFFICE OF THE STATE TREASURER**

ROOM 102 STATEHOUSE  
P.O. Box 83720  
BOISE, IDAHO 83720-0091

April Renfro  
Legislative Audits  
PO Box 83720  
Boise, ID 83720-0054

March 27, 2008

Dear Ms. Renfro,

In reply to the FY 2007 Idaho Bond Bank Authority Audit Report, the Treasurer's Office is in general agreement with the findings included in the report. Below are our responses to the individual items addressed in the audit.

Finding #1: Material errors existed in the financial statements due to the lack of an accounting system and accounting expertise within the authority.

Response: The Bond Bank Authority does not have appropriations or staff to maintain an accounting system and relies upon the Trustee, US Bank, to prepare and submit the financial accounting, and the State Controller's Office to prepare and submit the financial statements. Until such time that the State Treasurer is able to hire accounting expertise, the Bond bank will have to continue to rely on the Trustee and The State Controller's Office for its accounting services.

Finding #2: Costs of salaries and fringe benefits provided by the State Treasurer's Office are not disclosed in the Authority's financial statements as required.

Response: The State Treasurer's Office is now tracking all personnel hours worked on behalf of the Idaho Bond Bank Authority and will be able to provide this information for the next financial statement.

I thank you for the opportunity to respond to the findings in the audit, and appreciate the efforts of you and your staff.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron G. Crane".

Ron G. Crane  
State Treasurer

# APPENDIX

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## **HISTORY**

The Idaho Bond Bank Authority was established in 2001 by Idaho Code, Title 67, Chapter 87. Organizationally, the Authority is an independent entity that operates within the Office of the State Treasurer. The Authority, by constitutional amendment, is relieved from certain State constitutional debt limitations and voter approval requirements.

## **PURPOSE**

The purpose of the Authority is to lend money to local governments within the State, with the goal of providing funds for their infrastructure needs and access to capital markets at competitive interest rates.

## **ORGANIZATION**

The Authority consists of five members including the State Treasurer, or his designee, serving as ex officio chairman, one member of the Senate serving at the pleasure of the President Pro Tempore for a term of two years, one member of the House of Representatives serving at the pleasure of the Speaker of the House of Representatives, and two members appointed by the Governor serving four year terms.

## **FUNDING**

In the first session of 2001, the Legislature passed Senate Bill 1174 creating the Authority.

Using the Authority's program, a municipality obtains a loan from the Authority secured by either the municipality's bond or a loan agreement with the Authority. The Authority pools several loans to municipalities into one bond issue. The municipalities then repay the loan, and those repayments are used to repay the revenue bonds. The Authority can obtain better credit ratings, more attractive interest rates, and lower underwriting costs than municipalities could achieve individually. The Authority is able to pledge certain State funds as additional security for its bonds, further reducing interest costs.

Since 2001, the Authority has issued \$38,265,000 in revenue bonds. The Authority has received \$80,000 in contributions from the Office of the State Treasurer to pay for some of the Authority's administrative expenses. In the first session of 2007, the Legislature amended Idaho Code, Title 67, Chapter 87, to allow for the Office of the State Treasurer to pay for the expenses beginning in fiscal year 2008.